

Message Text

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ACTION EUR-12

INFO OCT-01 EA-07 IO-10 ISO-00 AGR-05 CEA-01 CIAE-00

COME-00 DODE-00 EB-07 FRB-03 H-02 INR-07 INT-05 L-03

LAB-04 NSAE-00 NSC-05 PA-01 AID-05 CIEP-01 SS-15

TAR-01 TRSE-00 USIA-06 PRS-01 SP-02 FEAE-00 OMB-01

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC 6239

INFO AMEMBASSY ANKARA

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C O N F I D E N T I A L SECTION 01 OF 03 LONDON 16991

E.O. 11652: GDS

TAGS: UK, ECON, PFOR

SUBJECT: SEPTEMBER/OCTOBER IN THE UNITED KINGDOM

SUMMARY: BRITAIN SLOWED SLIGHTLY IN SEPTEMBER/OCTOBER ITS ECONOMIC, POLITICAL AND PSYCHOLOGICAL DRIFT. THERE ARE SIGNS OF AN EMERGING, THOUGH FRAGILE, SPIRIT OF COOPERATION AMONG ALL ECONOMIC ACTORS. BUT BRITAIN REMAINS IN A DEEP RECESSION WHICH WILL TEST THE LIMITS OF THIS COOPERATIVE SPIRIT. SUCH TESTS WILL INCLUDE HMG'S REACTION TO CONTINUED HIGH LEVELS OF UNEMPLOYMENT, PRESSURES TO REFLATE THE ECONOMY, AND CALLS FOR IMPOSITION OF SELECTIVE IMPORT CONTROLS. CALLAGHAN'S DEMAND FOR A SEPARATE SEAT AT THE CONFERENCE ON INTERNATIONAL ECONOMIC COOPERATION HAS STRAINED UK-EC RELATIONS, BUT APPARENT ASSUMPTION AMONG UK OFFICIALS IS THAT A COMPROMISE WILL BE FOUND WHICH WILL MEET BOTH THE LABOR GOVERNMENT'S DOMESTIC POLITICAL NEEDS AND THE LARGER REQUIREMENTS OF THE COMMUNITY AND THE DIALOGUE. END SUMMARY

1. BRITAIN SLOWED SLIGHTLY IN SEPTEMBER/OCTOBER ITS ECONOMIC, POLITICAL AND PSYCHOLOGICAL DRIFT. HAROLD WILSON'S GOVERNMENT REAPED THE RESULTS OF ITS EFFORTS BEGUN OVER TWO AND HALF YEARS AGO UNDER THE RUBRIC OF THE SOCIAL CONTRACT, TO ACHIEVE CLOSE COOPERATION BETWEEN THE LABOR PARTY AND THE UNIONS. AT THE TRADE UNIONS CONGRESS (TUC) CONFERENCE IN EARLY SEPTEMBER, THE BULK OF BRITAIN'S LABOR LEADERS AND UNIONS OFFICIALLY AGREED TO THE MAJOR ELEMENT IN THE GOVERNMENT'S FIGHT AGAINST INFLATION, A ONE-YEAR VOLUNTARY WAGE RESTRAINT PACKAGE. THE TUC'S ACCEPTANCE OF THE SIX POUNDS PER WEEK PAY RAISE LIMIT PROVIDED WILSON AND THE NATION WITH POSITIVE PROOF THAT, AT LEAST THROUGH NEXT SPRING, BRITISH LABOR MEANT TO TRANSCEND ITS TRADITIONAL AND PAROCHIAL PREOCCUPATIONS AND FIGHT INFLATION AT THE GOVERNMENT'S SIDE. THIS UNPRECEDENTED PARTNERSHIP
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BETWEEN THE WILSON GOVERNMENT AND UNIONS ON INCOMES POLICY, FORMALIZED AT THE TUC CONFERENCE, LARGELY PREDETERMINED THE OUTCOME OF THE LABOR PARTY CONFERENCE AT THE END OF SEPTEMBER. THE PARTY OVERWHELMINGLY ENDORSED WILSON'S ECONOMIC POLICIES AND THE PRIME MINISTER WAS ONCE AGAIN ABLE PUBLICLY TO CONFIRM THE ISOLATION AND IMPOTENCE OF HIS LEFT-WING CRITICS.

2. IN EARLY OCTOBER, AND IMMEDIATELY AFTER HER RETURN FROM THE UNITED STATES, MARGARET THATCHER LED THE TORIES TO THEIR ANNUAL CONFERENCE. THERE SHE WAS CROWNED AS REIGNING QUEEN OF THE PARTY AMID VAGUE, IF DEEPLY FELT, CONSERVATIVE PRONOUNCEMENTS THAT FORMER WAS BETTER. MRS. THATCHER'S DECISION NOT TO OFFER THE COUNTRY SPECIFIC POLICY PRESCRIPTIONS FOR ITS ILLS DRAINED THE CONFERENCE OF ALMOST ALL BUT RHETORIC, LEFT THE PUBLIC NO SURER THAN BEFORE OF WHAT THATCHER CONSERVATISM IS ALL ABOUT, AND ALLOWED THE PRIME MINISTER TO MANEUVER ON THE NATIONAL FIELD FREE FROM ALTERNATIVE TORY POLICIES.

3. AS A RESULT OF HMG-T/UC COOPERATION, THE GOVERNMENT'S EFFORTS TO BRING INFLATION UNDER CONTROL ARE SHOWING CLEAR INDICATIONS OF SUCCESS. THE INCREASE IN RETAIL PRICES SLOWED TO AN ANNUAL RATE OF 10.4 PER CENT DURING THE THIRD QUARTER. STILL, THE SEPTEMBER RETAIL PRICE INDEX IS 26.6 PER CENT HIGHER THAN A YEAR EARLIER AND THERE ARE MORE, ALBEIT SMALLER, INCREASES AHEAD. THE

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FM AMEMBASSY LONDON

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INFO AMEMBASSY ANKARA

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GENERAL ECONOMIC SCENE REMAINS ONE OF DEEP RECESSION. A SHARP DECLINE IN INDUSTRIAL PRODUCTION CAUSED GNP TO DROP AT AN ANNUAL RATE OF 10 PER CENT DURING THE SECOND QUARTER. A HOPEFUL SIGN IN THE PAST TWO MONTHS HAS BEEN THE INTENSE SOUL SEARCHING ON THE PART OF GOVERNMENT, ORGANIZED LABOR, INDUSTRY AND THE FINANCIAL COMMUNITY ABOUT THE SECULAR DETERIORATION OF BRITAIN'S INDUSTRIAL BASE. A CONSENSUS IS DEVELOPING THAT SOLUTIONS ARE POSSIBLE BUT WILL REQUIRE THE COOPERATION OF ALL THE MAJOR ECONOMIC ACTORS. WHILE THIS COMING TOGETHER OF GROUPS WHOSE MUTUAL ANTAGONISMS HAVE BEEN EXACERBATED BY LONG PERIODS OF CONFLICT IS A POSITIVE DEVELOPMENT, THE EMERGING SPIRIT OF COOPERATION IS FRAGILE. MOREOVER, WILSON'S PRESENT POLICY DEPENDS ON A REVIVAL OF EXPORTS AND INVESTMENT TO LEAD THE ECONOMY OUT OF RECESSION. THE CONDITIONS NECESSARY FOR THIS POLICY TO WORK WOULD BE UNDERMINED IF HMG ACCEDED TO SHORT TERM PRESSURES FROM THE LABOR MOVEMENT TO REDUCE PRESENT HIGH LEVELS OF UNEMPLOYMENT, NOW ABOUT 1.1 MILLION.

4. CLEARLY THE GOVERNMENT IS PLAYING FOR TIME FOR THE

RECESSION TO OTTOM OUT, WORLD TRADE TO REVIVE, AND THE HOPED FOR SPIRIT OF DOMESTIC ECONOMIC DETENTE TO BECOME MORE FIRMLY ROOTED. IN THE SHORT TERM' RISING UNEMPLOYMENT -- WHICH WOULD PUT PRESSURE ON THE LABOR LEADERSHIP FROM ITS RANK AND FILE TO SEEK GOVERNMENT REDRESS -- AND FALLING INDUSTRIAL PRODUCTION WILL TEST HMG'S RESOLVE TO REFRAIN FROM PREMATURE REFLATIONARY MEASURES AND TEST THE LIMITS OF WILSON'S ACCORD WITH THE UNIONS.

5. AN EARLY EXAMPLE OF THE NATURE OF THOSE LIMITS IS THE TUC CALL FOR THE IMPOSITION OF SELECTIVE IMPORT CONTROLS. PROTECTIONIST SENTIMENT IN THE TRADE UNIONS CONTINUES TO RISE IN PROPORTION TO THE INCREASE IN THE UNEMPLOYMENT POLLS. THE TUC HAS FURTHER INTENSIFIED

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ITS PRESSURE ON THE GOVERNMENT, BY FORMALLY PRESENTING THE PRIME MINISTER WITH A NINE-POINT PLAN FOR IMPORT CONTROLS TO PROTECT KEY INDUSTRIES WHICH THE TUC SEES AS VIABLE IN THE MEDIUM-TERM BUT SUBJECT TO SERIOUS DAMAGE AS A RESULT OF SHORT-TERM IMPORT COMPETITION.

6. THE GOVERNMENT HAS POSITIONED ITSELF TO INTRODUCE CONTROLS IF THE POLITICAL DECISION IS MADE TO DO SO. TRADE MINISTER PETER SHORE SAID MOST RECENTLY THAT BRITAIN WOULD BE DRIVEN TO TAKE UNILATERAL MEASURES IF "A MAJOR UK INDUSTRY WERE REALLY THREATENED." CONTROLS COULD CONCEIVABLY TAKE ANY FORM, BUT IT APPEARS MOST LIKELY THEY WOULD INITIALLY BE SELECTIVE AND DESIGNED TO PRODUCE MAXIMUM PUBLIC IMPACT WITH MINIMUM DISRUPTION OF TRADE. IN ANY CASE, WILSON WOULD BE RELUCTANT TO ACT UNTIL AFTER THE NOVEMBER 15-17 ECONOMIC SUMMIT.

7. IN THE COMMUNITY ARENA, NO SINGLE ACT BY THE UK HAS UPSET ITS EUROPEAN PARTNERS MORE THAN THE DECLARATION BY FOREIGN SECRETARY CALLAGHAN THAT BRITAIN SEEKS A SEPARATE SEAT AT THE PARIS CONFERENCE ON INTERNATIONAL ECONOMIC COOPERATION. IN MAKING HIS DEMAND CALLAGHAN ABRUPTLY ABANDONED THE PREVIOUS GOVERNMENT POSITION THAT BRITAIN WOULD ACCEPT REPRESENTATION BY THE COMMUNITY

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FM AMEMBASSY LONDON

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IF A COMMON EA POSITION COULD BE AGREED UPON. THE UNCONDITIONAL SEVERING OF THIS LINKAGE AND THE DEMAND FOR INDIVIDUAL REPRESENTATION HAVE HAD TWO IMMEDIATE RESULTS. THE REST OF THE COMMUNITY BELIEVES, QUITE RIGHTLY, THAT BRITAIN IS THREATENING TO PRECLUDE AGREEMENT ON AIEC ATTENDANCE AND THUS ENDANGER THE ENTIRE DIALOGUE. SECONDLY, THE BRITISH STANCE IS WIDELY REGARDED AS UNDERMINING THE WHOLE PRINCIPLE OF COMMUNITY SOLIDARITY, A PRINCIPLE BRITAIN HAS NOT HESITATED TO INVOKE ITSELF IN SUPPORT OF POLICIES OF WHICH IT APPROVES.

8. THE RESULTANT STRAINS IN UK-EC RELATIONS DURING THE PAST FEW WEEKS HAVE GROWN SIGNIFICANTLY. THE QUESTION OF WHY IS BEING ASKED DAILY ON BOTH SIDES OF THE CHANNEL. THERE IS NO SINGULARLY COMPELLING RATIONALE TO BE FOUND IN THE STATEMENTS OF BRITISH OFFICIALS' NOR ANY CONSENSUS TO BE FOUND IN THE NUMEROUS EXPLANATIONS OFFERED BY OBSERVERS. YET, THERE IS NO SENSE OF IMPENDING FAILURE OF THE DIALOGUE NOR ANY EXPECTATION OF PERMANENT DAMAGE TO COMMUNITY COHESIVENESS AS A RESULT OF BRITISH ACTIONS -- BUT RATHER THERE IS AN APPARENT ASSUMPTION AMONG OFFICIALS HERE THAT THE COMMUNITY WILL SOMEHOW FIND A COMPROMISE ON SEPARATE REPRESENTATION THAT WILL MEET BOTH THE LABOR GOVERNMENT'S DOMESTIC POLITICAL NEEDS AND THE LARGER REQUIREMENTS OF THE COMMUNITY AND THE DIALOGUE.

9. THIS CABLE BEGINS A SERIES OF MONTHLY REPORTS WHICH WILL SUMMARIZE AND ATTEMPT TO GIVE PERSPECTIVE TO SIGNIFICANT UK DOMESTIC AND INTERNATIONAL DEVELOPMENTS. THE REPORTS WILL CEASE IN SIX MONTHS UNLESS THEIR CONTINUING USEFULNESS HAS BEEN ESTABLISHED.

RICHARDSON

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Message Attributes

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Draft Date: 05 NOV 1975
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Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: CunninFX
Disposition Case Number: n/a
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Film Number: D750384-0853
From: LONDON
Handling Restrictions: n/a
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